

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 IO-14 ISO-00 SAJ-01 AID-20 CIAE-00

COME-00 EB-11 FRB-03 INR-11 NSAE-00 RSC-01 TRSE-00

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NSC-07 SS-20 STR-08 CEA-02 L-03 H-03 DODE-00 PA-04

USIA-15 PRS-01 AGR-20 FEAE-00 INT-08 SAM-01 NEA-14

SCI-06 SWF-02 PM-07 DRC-01 /253 W

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AMEMBASSY ROME

AMEMBASSY TOKYO

AMEMBASSY OSLO

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SUBJECT: ALPBACH FORUM 1974: EUROPEANS PESSIMISTIC ON
THEIR OWN ABILITY TO COPE WITH ECONOMIC PROBLEMS

DEPT PASS TREASURY, COMMERCE, FRB

REFS: VIENNA 7618 OF SEPT. 14, 1973

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1. SUMMARY: IN CONTRAST TO PREVIOUS YEARS, THERE WAS NO "BRAVE NEW WORLD" TALK AMONG THE EUROPEANS AT THIS YEAR'S ALPBACH FORUM. WHILE LAST YEAR THE US WAS THE SUBJECT OF MUCH CRITICISM, THE ATMOSPHERE THIS YEAR WAS ALMOST DIAMETRICALLY DIFFERENT, IN THAT THE US WAS SEEN AS THE ONLY COUNTRY IN THE WESTERN WORLD WHICH COULD EXERT THE NECESSARY LEADERSHIP AMIDST PRESENT UNCERTAINTIES ON THE ECONOMIC SCENE. THE MOOD AMONG THE EUROPEANS WAS ONE OF SKEPTICISM AND PESSIMISM ABOUT THEIR OWN ABILITY TO PULL THEMSELVES TOGETHER TO DEAL IN ANY CONCERTED FASHION WITH THE PROBLEMS OF INFLATION, SOARING OIL PRICES AND RECYCLING OF PETRO-DOLLARS. THE OFFICIAL US SPOKESMAN AT THE FORUM, DR. SIDNEY L. JONES, DEPUTY ASSISTANT TO THE PRESIDENT, PROVIDED MUCH NEEDED REASSURANCES THAT THE US WAS STEADY ON COURSE UNDER A NEW PRESIDENT. THERE WERE COMPLAINTS, HOWEVER, THAT THE US IS NOT EXERCISING SUFFICIENT INFLUENCE OR INTEREST IN EUROPEAN PROBLEMS. THE EUROPEANS AT ALPBACH SEEMED ALMOST COMPLETELY UNAWARE OF THE INITIATIVES THE US HAS TAKEN IN THE OIL SECTOR. RENEWED EFFORTS TO EXPLAIN TO WESTERN EUROPEAN GOVERNMENTS US POLICIES IN THE ENERGY, ECONOMIC AND MONETARY AREAS WOULD APPEAR TO BE VERY MUCH IN ORDER AT THE PRESENT JUNCTURE. (END SUMMARY)

2. THE ECONOMIC SYMPOSIUM AT THIS YEAR'S ALPBACH FORUM DEALT WITH THE GENERAL SUBJECT OF EUROPE'S MONETARY AND FINANCIAL ROLE IN THE WORLD TODAY. THREE MAJOR CONCERNS QUICKLY EMERGED WHICH DOMINATED THE TWO-DAY SESSION ATTENDED BY ABOUT 250 LEADING FINANCIAL, ECONOMIC AND BANKING LEADERS FROM WESTERN EUROPE:

(A) UNEASINESS OVER THE FUTURE COURSE OF US POLICY UNDER A NEW PRESIDENT;

(B) TWO-DIGIT INFLATION AND THE THREAT IT POSES TO WESTERN ECONOMIES;

(C) THE STEEP RISE IN OIL PRICES, THE RESULTING UNCLASSIFIED

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BALANCE OF PAYMENT DIFFICULTIES AND THE PROBLEM OF RECYCLING ARAB OIL EARNINGS, THE SO-CALLED PETRO-DOLLARS.

3. THE US WAS VERY ABLY REPRESENTED THIS YEAR, AS LAST, BY DR. SIDNEY L. JONES, DEPUTY ASSISTANT TO THE PRESIDENT AND DEPUTY TO THE PRESIDENT'S ECONOMIC COUNSELOR. DR. JONES OPENED THE SYMPOSIUM WITH A TALK ABOUT THE NEW PRESIDENT

AND THE COURSE OF ACTION HE IS LIKELY TO TAKE, PARTICULARLY IN THE ECONOMIC SPHERE. JONES EMPHASIZED THE CONTINUITY IN BASIC US POLICIES AND EMPHASIZED THAT PRESIDENT FORD CAN BE EXPECTED TO PROVIDE VIGOROUS LEADERSHIP, WITH THE FIGHT AGAINST INFLATION HIS NUMBER ONE PRIORITY TASK. JONES ALSO ANALYZED THE PRESENT STATE OF THE US ECONOMY AND IMPRESSED UPON THE FORUM THAT THE US ECONOMY, WHILE IT HAS WEAKNESSES, REMAINS STRONG AND HAS STABILIZED IN RECENT MONTHS. HE EMPHASIZED THE NEED FOR MODERATE FISCAL AND MONETARY RESTRAINT. JONES ALSO PREDICTED QUICK PASSAGE OF THE TRADE BILL NOW BEFORE CONGRESS. HE ALSO REAFFIRMED US POLICY IN FAVOR OF EUROPEAN INTEGRATION AND MONETARY UNITY BUT WARNED THAT AN INWARD LOOKING EUROPE WOULD IGNITE PROTECTIONIST AND ISOLATIONIST SENTIMENTS IN THE US.

4. A STRIKING FEATURE OF THIS YEAR'S ALPBACH FORUM WAS THE ALMOST TOTAL ABSENCE OF CRITICAL COMMENT TOWARDS US POLICIES OR TALK OF A CONFRONTATION BETWEEN THE US AND EUROPE WHICH HAD BEEN HEARD AT ALPBACH IN THE LAST FEW YEARS. FAR FROM CONDESCENDING COMMENTS ABOUT A WEAKENING ROLE FOR THE DOLLAR, THE CONSENSUS APPEARED TO BE IN FACT THAT THE DOLLAR, RECENTLY STRENGTHENING, MAY RE-EMERGE AS THE KEY CURRENCY IT WAS BEFORE MID-1971 AND THAT THIS MAY INDEED BE A VERY GOOD DEVELOPMENT FOR EUROPE AND THE WORLD.

5. ANOTHER MAJOR CHARACTERISTIC THIS YEAR WAS A SURPRISING LACK OF CONFIDENCE DEMONSTRATED BY THE EUROPEAN PARTICIPANTS IN THE ABILITY OF EUROPE TO PULL ITSELF TOGETHER AND DEAL WITH CRITICAL ISSUES SUCH AS INFLATION AND THE PROBLEMS RESULTING FROM SKYROCKETING OIL PRICE INCREASES. THERE WAS A GREAT DEAL OF DISCUSSION OF

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HOW THE ENORMOUS EARNINGS OF THE OIL PRODUCING COUNTRIES.

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ARE TO BE RECYCLED. IT WAS QUICKLY RECOGNIZED THAT THE US WITH ITS CONTINENTAL SIZE AND ITS EFFICIENT CAPITAL MARKET WAS IN A MUCH BETTER POSITION TO DEAL WITH RECYCLING THAN EUROPE. A GENERAL FEAR WAS EXPRESSED THAT WESTERN EUROPE WOULD, IN FACT, BE UNABLE TO ORGANIZE ITSELF TO ATTRACT ARAB CAPITAL AND WOULD HAVE TO "QUE UP" TO BORROW FROM THE FUNDS INVESTED IN THE US BY OIL PRODUCING STATES. THERE UNCLASSIFIED

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WAS SOME DISCUSSION OF THE POSSIBLE ROLE THE BANK FOR INTERNATIONAL SETTLEMENTS (BIS) MIGHT PLAY IN RECYCLING, AND IT WAS AGREED THAT THE BANK MAY BE ABLE TO PLAY A SIGNIFICANT ROLE VIS-A-VIS THE ARABS ON THE ONE HAND AND THE EUROPEAN CENTRAL BANKS ON THE OTHER. THIS ROLE, HOWEVER, WAS SEEN AS LIMITED, SINCE THE BANK DEALS ONLY WITH CENTRAL BANKS. APART FROM THE POSSIBLE ROLE THE BIS MIGHT PLAY, THE

EUROPEANS WERE AT A LOSS TO COME UP WITH ANY SPECIFIC IDEAS ON HOW THEY MIGHT COORDINATE THEIR POLICIES TO BETTER DEAL WITH THE RECYCLING OF OIL MONEY.

6. THE SKEPTICISM AND PESSIMISM AMONG THE EUROPEAN PARTICIPANTS WAS VERY EVIDENT IN DISCUSSION OF EUROPEAN MONETARY UNION. THE OVERWHELMING CONSENSUS WAS THAT THIS IS A LONG WAY OFF, AND THAT IT HAS BEEN SET BACK SEVERELY BY SOARING INFLATION AND THE DISLOCATIONS BROUGHT BY OIL PRICE INCREASE. IN SHORT, THERE WAS NO "BRAVE NEW WORLD" TALK AMONG THE EUROPEANS AT ALPBACH THIS YEAR. THEY SEEMED DISHEARTENED OVER THEIR OWN WEAKNESS AND INABILITY TO MOVE TOWARDS CONCERTED POLICIES IN THE ECONOMIC AND FINANCIAL SPHERE.

7. MOST PARTICIPANTS IN THE FORUM SEEMED MORE PREPARED THAN IN RECENT YEARS TO FOLLOW AN AMERICAN LEAD. THERE WERE SOME COMPLAINTS THAT THE US IS NOT EXERCISING ENOUGH INFLUENCE OR PAYING SUFFICIENT ATTENTION TO EUROPE'S PROBLEMS. DR. JONES'S REASSURANCES ABOUT THE FUTURE COURSE OF THE NEW ADMINISTRATION WERE EXTREMELY TIMELY AND WERE GREETED WITH AN ALMOST AUDIBLE SIGH OF RELIEF AT ALPBACH.

8. AMONG THE PROMINENT FIGURES PARTICIPATING IN THIS YEAR'S SYMPOSIUM WERE PIERE PAUL SCHWEITZER, FORMERLY HEAD OF THE IMF; AUSTRIAN FINANCE MINISTER ANDROSCH; DR. ASCHINGER OF THE SWISS BANK VEREIN; RAYMOND BERTRAND OF OECD; JURGEN PONTO OF THE DRESDNER BANK (WHO WAS PERHAPS THE MOST FORCEFUL AND ARTICULATE EUROPEAN SPOKESMAN); ANTONIO REINONI OF THE BIS; AND WOLFF VON AMERONGEN, THE PRESIDENT OF GERMAN INDUSTRY

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AND COMMERCE ASSOCIATION. LIST OF PARTICIPANTS AND OTHER PARTICULARS BEING FORWARDED TO THE DEPARTMENT BY POUCH.

9. COMMENT: THIS YEAR'S DISCUSSIONS AT ALPBACH REVEALED A CRISIS OF CONFIDENCE IN THE PRIVATE BUSINESS AND BANKING SECTORS WHICH SEEMS LIKELY TO SPREAD UNLESS EUROPEAN GOVERNMENTS TAKE GREATER INITIATIVES TO WORK TOWARDS HARMONIZATION OF POLICIES IN A MULTILATERAL CONTEXT. NOR DO PRIVATE SECTOR LEADERS, AS EVIDENCED BY SAMPLING OF OPINIONS AT ALPBACH, SEEM TO APPRECIATE ADEQUATELY THAT US CONSIDERS A UNITED EUROPE ESSENTIAL. IT APPEARS THAT WHAT IS REQUIRED NOW TO HALT A DRIFT TOWARD DISARRAY IN EUROPE IS THAT WE EXPLAIN ANEW FUNDAMENTAL US ECONOMIC OBJECTIVES AT THE

HIGHEST LEVELS OF EUROPEAN GOVERNMENTS. IF THE MOOD
AT ALPBACH IS ANY GUIDE, WE MIGHT FIND THE EUROPEANS
SUPRISINGLY RESPONSIVE TO OUR POSITIONS IN THE ECONO-
MIC, MONETARY AND ENERGY FIELDS.HUMES

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